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DOCUMENT NO. 15
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 NEXT REVIEW DATE:
 AUTH: HR 70-2
 DATE 12-11-77 REVIEWER: 372044

OFFICE OF REPORTS AND ESTIMATES, CIA
 FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 6
 WEEK OF 15 JUNE - 21 JUNE 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

US consideration of the industrial rehabilitation of Japan has given rise to uneasy speculation on the part of other nations with Far Eastern interests that an early Japanese peace treaty could impose limitations on Japanese industrial activity which would alleviate the fear of a resurgent Japan (page 3). Japan may produce railway rolling stock for Soviet use in Sakhalin (page 3).

Australian good-will mission to Southeast Asia, headed by MacMahon Ball, is meeting with strong opposition because of the "White Australia" policy, (page 4). At the United Nations Economic Commission for Asia and the Far East meeting in India, 1 - 18 June, both the US by its stand on financial aid and the USSR by its debating techniques which greatly slowed progress at the conference, appear to have lost popularity with delegates from Far Eastern countries, (page 5). Soviet economic activities in Southeast Asia continue, (page 4).

Japanese Premier Ashida's decision to dissolve the Diet and hold elections rather than to resign, may be taken as a test of SCAP's attitude which until recently has been opposed to new elections (page 6).

Negotiations between Seoul and Pyongyang to effect a settlement of the electric power dispute have reached a complete stalemate (page 6).

Increasing military activity over a wide area in China was highlighted by the Communist capture of the important city of Kaifeng (page 7). Factionalism in the legislative Yuan is further indication of the rifts in the KMT and while such rifts may be indicative of the appearance of democratic tendencies on the Chinese scene, they are hindering the formation of any unified or effective government policy (page 7). Chinese students plan to expand anti-US activities (page 7).

NOTE: In succeeding sections of this Weekly, the following marginal notations are used:

- (1) ~~Double~~ asterisk (*)^{*} — to indicate that all or part of an item is based solely upon information from State's "S/S distribution" series.
- (2) ~~An Asterisk (*)~~ "A", "B", or "C" — importance, in B/FE's opinion, of the item, with "SECRET" marking the most important ones.

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SUMMARY (continued)

Prolonged disturbances in Malaya, which now can be considered likely, could deprive the UK of a major dollar earning area, the US of a source of vital raw materials and would seriously jeopardize the success of the European Recovery Program (page 9).

Success of the new provisional regime in Indochina may depend on the ability of High Commissioner Bollaert, at present enroute to Paris, to convince the French Assembly of the immediate necessity of approving and implementing the Franco-Vietnamese treaty, (page 9).

Amnesty for dissident agrarian organizations may result in an increasingly nationalistic trend (page 10).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Australia desires a statement of US aims in Japan

US consideration of the industrial rehabilitation of Japan has given rise to uneasy speculation on the part of other nations that an early Japanese peace treaty could impose limitations on Japanese industrial activity which would alleviate the fear of a resurgent Japan. Typifying this concern is the Australian attitude regarding recurrent Japanese economic penetration with the attendant possibility of Japanese military resurgence. A Reuter despatch from Canberra quotes Australian External Affairs Minister Evatt as charging (1) that the US policy of building up Japan would result in danger for Australian and the Pacific nations, (2) that this view is shared by other British Commonwealth members on the FEC, and that (3) whereas Australian policy as regards the peace treaty has not changed in any respect, worsening of US-USSR relationships has caused the former American position regarding Japanese industry to be superseded by a policy similar to that which was followed in Germany after the first World War. In view of these and similar changes, SCAP believes the time opportune for the issuance of a US policy statement vis-a-vis Japan.

"B"

Japan may produce railway rolling stock for the USSR

SCAP has reportedly approved the manufacture by Japan for the USSR of \$3,500,000 worth of railway rolling stock in exchange for coal, coking coal, wood pulp and other raw materials produced in Soviet-controlled Sakhalin. Under the reported agreement, Japanese factories will manufacture 30 locomotives, 160 freight cars, 20 refrigerator cars, 20 tank cars, and a number of passenger cars for railways in Sakhalin. All this rolling stock will be narrow gauge, not widely used in other parts of the world.

"B"

The USSR has been negotiating with SCAP for such an agreement for some time. In May of this year, the US Political Adviser in Tokyo asked the Department of State for advice on such an agreement in view of US export restrictions on the manufacture and sale to the USSR of items that may be used in a re-armament program in that country. (See FE/P Weekly 4 May-10 May 1948). At that time, the Department of State replied with the preliminary opinion that each such transaction must be considered on its merits in the light of goods obtainable by Japan from the USSR. The execution of this agreement would mean that SCAP has determined that the railway rolling stock would add little to the USSR war potential whereas Japan will receive quantities of essential goods which are not obtainable elsewhere.

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GENERAL (continued)

US policy in the Far East criticized by Singh

The charge that US policy in the Far East is vacillating and temporary "B" was made by the Indian delegate to UNTCOK, Singh, in an unofficial conversation with US political Advisor, Jacobs. Singh said that the US seemed to be directing all its attention towards Europe and neglecting the Far East. He intimated that perhaps the US had decided that it cannot effectively oppose the USSR on all fronts and as a result planned to abandon Asia. Because of the irresolution of US policy, Singh said, Far Eastern nations are faced with the dilemma of either siding with the US and running the risk of being let down or of seeking to slide, as gracefully as possible, into the Soviet orbit. Singh's statements, are probably indicative of the views held by some informed and influential persons in Far Eastern countries and consequently, exert some influence on the attitudes of these countries towards the US and its policies.

USSR economic activities in Southeast Asia continue

USSR economic activities in Southeast Asia (SEA) appear to be gaining "B" momentum. Further Soviet offers to buy unlimited quantities of tin and as much as 3,000 tons monthly of rubber in Siam together with a newly expressed Czechoslovakian interest in rubber and other commodities indicate Soviet eagerness to compete in the SEA market. In addition, USSR shipping facilities are reported to be readily available for trade with Siam. Trade representatives of the USSR and Czechoslovakia apparently are agreeable to payments in US dollars, UK pounds or by barter. The USSR has offered to export to Siam, among other goods, newsprint, chemicals, coal, and oil. The Soviets are reported to be enlarging their area of economic activity by recruiting Chinese agents for the penetration of Siam and Malaya and through Siamese and Chinese labor unions in Bangkok.

Australia mission to Southeast Asia meeting with strong opposition

Australia's attempt to develop harmonious and constructive relations "B" with the countries in Southeast Asia through an educational and relief mission under the leadership of McMahon Ball, is meeting with strong and unexpected opposition. Leading Malay, Chinese, and Indian political leaders in Singapore attacked the mission on the grounds that Southeast Asian resentment of the "White Australia" immigration policy was not to be allayed by good-will gestures alone. The chairman of the Left Wing Nationalist Party refused an invitation to meet Ball, while the president of the Right Wing Malay Union informed Ball that Australia's immigration laws caused distrust throughout the area.

Reactions in Australia to this development have been mixed. Some federal

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GENERAL (continued)

ministers suggested that a conference be called to iron out difficulties. The Sydney Morning Herald attacked the "recent harsh interpretation" of the immigration laws, while the Sydney Daily Mirror demanded Ball's recall, following his statement that the next ten years might see a change in Australia's immigration policy. This latter statement was denounced by Foreign Minister Evatt as outside the competence of the mission.

Third Session of UN-ECAFE fails to develop concerted program for the economic rehabilitation of the Far East.

The United Nations Economic Commission for Asia and the Far East meeting in Ootacamund, India, June 1 - 18th, concluded its third session with little tangible evidence that progress had been made towards the economic development and reconstruction of the Far East. Like the previous conference, held in Baguio, P.I. in November 1947, leaders of the Far Eastern delegations maintained that no improvement in their economic position could be achieved without assistance from western nations in the form of capital goods. The US ambassador Henry F. Grady, however, dispelled any impression that the US intended to bolster Asian recovery with outright monetary gifts. Both US, by its stand on financial aid, and the USSR, by its debating techniques which greatly slowed progress, appear to have lost popularity with delegates from Far Eastern countries. The earlier sessions of the conference were marked by a political controversy centering around the decision on the application of the Indonesian Republic for associate membership. Unable to agree, the conferees accepted a resolution by the Philippine delegation which postponed action on the issue until the fourth session. A Soviet delegate asked for consideration of Vietnam membership, but an issue was avoided by a ruling of the Executive Secretary that the Vietnamese had not applied for membership.

The session did, however, provide an opportunity for an exchange of views by Southeast Asian countries concerning the possibilities for future cooperation, and the machinery to effect implementation of future decisions was agreed upon. Temporary headquarters of ECAFE will remain at Shanghai, and Australia will be the scene of the fourth session which will be held in November 1948.

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JAPAN

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Ashida's position may be taken as a test of SCAP's attitude which until recently has been opposed to new elections. At the same time it may represent a challenge of the ability of the opposition to organize sufficient popular support for a clear-cut electoral victory.

Rumors of Emperor's Abdication unfounded. SCAP believes the recent speculation concerning the possible abdication of Emperor Hirohito to be unfounded. He further believes that these rumors are inspired largely by foreign sources, and are a corollary of the "inveterate irresponsibility" of the press correspondents who seek sensationalism.

"C"

KOREA

Negotiations between Seoul and Pyongyang to effect a settlement of the electric power dispute have reached a complete stalemate. The Soviet reply of 15 June to Gen. Hodge in South Korea by Gen. Mjr. S. P. Lerkulov, Commanding General of the Soviet Forces in North Korea re-stating the Soviet refusal to accept responsibility for the cut-off of the flow of electric power from North to South Korea was expected. The US is now faced with two alternatives: (1) the US can deal directly with the North Korean People's Committee as the USSR insists, however, this would be tantamount to US recognition of the sovereignty of that body in North Korea, or (2) the US can make representations on a Washington - Moscow level although this new approach offers little hope for a satisfactory settlement. However, such representations might be considered by the Koreans as evidence of the good faith on the part of the US to settle the dispute thus having a salutary effect.

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CHINA

The Shantung-Hosen border area remained the focal point of the Chinese "A" fighting during the past week. Despite Nationalist counter pressure, the Communists continued their southward drive along the Tientsin-Fukou Railway, cut the Lunghai Railway between Kaifeng and Hauchou, and, joining with units from the Central China region, launched the latest in a series of attacks upon the Chonghsien-Kaifeng area. The quick recognition given the Communist capture of Kaifeng by the Nationalist press may reflect Nationalist conviction that the Communists will simply loot the city and withdraw without defending it in the face of Nationalist counter-attacks. In the north the Communists, after withdrawing from Changteh, have attacked the Peiping-Mukden Railway in the vicinity of the Eailan coal fields near Tangshan. Nationalist reinforcements subsequently reduced that threat, but the Communists shifted their attacks eastward to the Luanhsien area.

Although the Nationalists have failed to seize the military initiative in this period of relative Communist quiescence, Nationalist leaders are reportedly confident of their ability to strengthen and hold presently occupied areas and are even thinking of possible counter-offensives when and if the Communists move, leaving their base areas vulnerable.

Factionalism in the Legislative Yuan has resulted in severe attacks on "A" Wong Wen-hao's program. Wong, with no political following of his own, may * not last more than a few months as Premier. Y. V. Soong estimates that even the Generalissimo can not control more than 25% of the legislature. Sum Fo, President of the Legislative Yuan, deplored the fact that the many divisions prevented the emergence of any capable legislative leadership. One legislator, most outspoken in his criticism of the Government, said that some members of the Yuan may form a third party if necessary. This factionalism is further indication of the rifts in the Kuomintang. While it may be evidence of the appearance of democratic tendencies on the Chinese scene, this conflict is hindering the formulation of any unified or effective government policies.

Li Tsung-jen's program for reform as explained by Kan Chieh-hou, his political advisor, anticipates the removal of Chiang Kai-shek when Chiang's support from the Whampoa Clique dissolves. According to Kan, after the introduction of many new faces into the Government and the formation of third party from elements in the Legislative Yuan, Li hopes to effect a settlement with the Communists that will give the latter a minor position in the Government. At present, however, Li appears to be making little progress with his program and it is doubtful if he can make the accommodation with the Communists which he is reported to desire.

Anti-American movements. The Chiaotung University students, who have "B" been agitating against the alleged US policy of resurrecting a militant Japan, have seemingly maneuvered the Shanghai mayor into a dilemma. They have refused to answer his eight questions designed to uncover the organization behind the

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recent student unrest. Mayor Wu had stated that if satisfactory answers were not returned, he would summon the students for questioning before a tribunal of public opinion bodies and he has now decided to invite delegates from a large number of public organs to form such a tribunal. However, the Shanghai Consulate feels the Mayor is deeply concerned over the students plans to invest the movement with the character of a "cause celebre" and to prove the "pure motive" behind their actions, in which designs they will be assisted by solidified anti-US sentiment in non-student circles and a general tendency to condone these student activities.

Reaction to US policy in Japan came from still another source when Hong Kong businessmen recently established an association to oppose US aid to Japanese industrial recovery.

Re-opening inland waters to foreign shipping. The Ministry of Communi- "C"
cations has announced that preliminary arrangements have been made to permit US vessels carrying aid supplies to China to sail up the Yangtze River, under conditions "which will not infringe upon China's inland navigation rights." (The Yangtze has been closed to foreign shipping since V-J Day.) Such special privileges are granted only for a temporary period of 6 months or 1 year, and posts of call are limited to Nanking and Hankow. According to the reported agreement, only US merchantmen coming direct from foreign ports will be allowed entry. These ships on the return voyage will be allowed to load export articles destined for foreign countries without making further stops at Chinese ports enroute. Britain will probably renew efforts to obtain the same privilege.

Currency/Prices. Despite renewed Government concern over the economic "B" situation, the blackmarket rate on US Dollars rose to a new high during the week--CN \$2,250,000 to US \$1. Following this slump in the value of the CN \$, commodities reached new highs with rice selling at over CN \$10 million a picul, as compared with the pre-war price of only CN \$10. Soaring prices and short supplies caused serious rice riots in Chungking and Ningpo. Each succeeding financial crisis is more severe, while control measures seem less effective. There are reports of increasing refusals to accept CN currency as a monetary medium, although such a trend is not yet widespread.

| The Shanghai Market: | US \$ Exchange (Selling Rate) | | Wholesale Price of Rice per 172 lb picul |
|-----------------------|-------------------------------|----------------|---|
| | Official "open" | Blackmarket | |
| This week (18 Jun 48) | CN \$480,000 | CN \$2,100,000 | CN \$10,100,000 |
| Week ago (11 Jun 48) | 480,000 | 1,675,000 | 8,800,000 |
| Month ago (18 May 48) | 480,000 | 1,120,000 | 5,350,000 |
| Year ago (18 Jun 47) | 12,000 | 34,000 | 400,000 |

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MALAYA

Critical situation develops as result of Communist-inspired disturbances. The extension, by the UK High Commissioner, of special emergency police powers to the Police Federation of Malaya and a series of anti-Communist raids by the Government has eliminated an organized terror campaign apparently instituted by the Malayan Communist Party. Malayan Communists, who are overwhelmingly Chinese here, since the end of the war, effectively organized and sponsored various trade unions and educational organizations, but before May Day 1948 had not openly resorted to violence. Since May Day, however, when Communist demonstrations were banned, Communist activities have shifted to rubber plantations and tin mines in rural areas taking the form of strikes, arson, intimidation and murder of European and Kuomintang Chinese planters and contractors. British authorities in Malaya, including the Governor General, Malcolm MacDonald, recently asserted that they had evidence of Communist plans for a political offensive in the Far East, including disturbances in Malaya.

While the USSR is engaged in extensive purchases in Malaya of rubber for stockpiling purposes, it is likely that the Soviets have played a part in the decision to effect a substantial curtailment of UK and US influence in the area by creating conditions which would necessitate the expensive employment of the limited UK military strength. It would appear that the Soviets and local Chinese Communist elements are aware that UK must also contend with an armed Chinese Kuomintang faction, who have indicated their determination to assert control in Malaya if UK authority shows signs of breaking down. Prolonged disturbances in Malaya which now can be considered likely, would deprive the UK of a major dollar earning area, the US of a source of vital raw materials, and would seriously jeopardize the success of the European Recovery Program.

FRENCH INDOCHINA

Implementation of agreement in French Indochina depends on clarification of French policy. A prompt clarification of French policy vis-a-vis French Indochina is essential if agreements in the sensitive diplomatic, military, and economic fields are to be concluded with the French-sponsored provisional central government of Vietnam. The status of French Indochina, which was partially clarified in the 5 June agreement negotiated in Indochina by French High Commissioner Bollaert, was the subject of recent remarks by Coste-Floret, the French Minister for Overseas France. Coste-Floret indicated that the fundamental position of the French Government calls for the complete freedom of Vietnam within the French Union and the unification, by a free popular vote, of the three states composing Vietnam (Tonkin, Annam, and Cochinchina). His first point was qualified, however, by the statement that within the French Union there must be "unity" of diplomacy and of the army. Despite his insistence that unification is to be decided by the Vietnamese themselves, Coste-Floret maintained that the signature of the 5 June treaty did not imply French recognition of unification, inasmuch as agreement by the French Assembly to a change in the status of Cochinchina (still a French colony) remains absolutely necessary. Success of the provisional regime in Indochina may thus depend upon the ability of Bollaert, ~~SECRET~~

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FRENCH INDOCHINA (continued)

at present en route to Paris, to convince the French Assembly of the immediate necessity of approving and implementing the Franco-Vietnamese treaty.

PHILIPPINES

Amnesty for dissident agrarian organizations may result in increasingly nationalistic trend. The amnesty proclamation pardoning members of both the Hukbalshap, dissident agrarian organization of central Luzon, and its political affiliate, the National Peasants' Union (PKU) signed 23 June by President Quirino in the presence of Huk leader, Luis Taruc is expected to be approved without delay by the Philippine Congress which is currently in special session. The long-awaited amnesty reportedly followed a crucial meeting on 6 June in central Luzon at which Huk leaders and Government representative Antonio Quirino, brother of the President, threshed out the amnesty terms and agreed upon the following points of policy: (1) encouragement of Filipino-owned industry; (2) a more equitable land distribution to the peasantry; and (3) implementation of policies free from foreign influence and control. Taruc who recently admitted his membership in the Philippine Communist Party, is an ardent nationalist and has repeatedly protested against US privileges and influence in the Philippines. It is likely that the Quirino Administration, which by initiating the amnesty negotiations has already departed abruptly from the policy pursued by the late President Roxas, will carry out the amnesty by a gradual trend toward the policy outlined at the 6 June meeting. As a result the US may be faced with increasing requests for changes and interpretations of the treaties which define rather rigidly the rights of the US and of US citizens in the Philippines.

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